CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 16, 2001

H.R. 7
Community Solutions Act of 2001

As ordered reported by the House Committee on Ways and Means on July 11, 2001

SUMMARY

H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services and would make several changes to tax law concerning deductions for charitable contributions. The Joint Committee on Taxation (JCT) estimates that the revenue loss associated with this legislation would be $4.5 billion over the 2002-2006 period and more than $13 billion over the 2002-2011 period. Because H.R. 7 would affect revenues, pay-as-you-go procedures would apply. The bill also would extend and expand the Assets for Independence Program that provides federal funds to encourage saving by low-income individuals. Assuming the appropriation of the specified amounts, CBO estimates that expansion would cost $119 million over the 2002-2006 period.

The Joint Committee on Taxation has reviewed the tax provisions (parts of title I) of H.R. 7 and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO reviewed the remaining provisions of the bill and found that section 104 contains an intergovernmental mandate as defined in UMRA because it would preempt certain state liability laws. CBO estimates that complying with this mandate would result in no direct costs to state governments and thus, would not exceed the threshold established in that act ($56 million in 2001, adjusted annually for inflation). Title III of the bill also would establish new requirements and prohibitions on state and local governments as conditions of receiving federal assistance under numerous federal programs.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 7 is shown in the following table. The cost of this legislation falls within budget function 500 (education, training, employment, and social services).

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending for Individual Development Accounts Under Current Law						
Authorization Level[a]	25	25	25	0	0	0
Outlays	9	17	23	24	13	4
Total Proposed Changes						
Authorization Level	0	25	25	50	50	50
Outlays	0	1	12	23	37	46
Spending for Individual Development Accounts Under the Bill						
Authorization Level[a]	25	50	50	50	50	50
Outlays	9	19	35	46	50	50
CHANGES IN REVENUES[b]						
Deduct some charitable contributions of individuals who do not itemize deductions	0	-40	-269	-316	-561	-573
Allow tax-free distributions from individual retirement accounts for charitable purposes	0	-143	-233	-245	-259	-253
Raise the cap on corporate charitable contributions	0	-28	-50	-52	-55	-41
Expand and increase the charitable deduction for contributions of food	0	-27	-46	-55	-61	-66
Modify excise tax to eliminate the 2-tier regime and impose 1% excise tax on net investment income	0	-118	-186	-195	-205	-215
Modify the unrelated business income tax for charitable remainder trusts	0	0	-5	-5	-5	-6
Modify the self-constructed property rule for certain charitable contributions	0	-1	-1	-1	-1	-1
Modify the basis of S corporation stock for certain charitable contributions	0	-11	-26	-31	-35	-38
Total Changes in Revenues	0	-368	-816	-900	-1,182	-1,193

a. The 2001 level is the amount appropriated for that year.

b. All estimates of the revenue effects of H.R. 7 were provided by JCT.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 7 will be enacted by the end of fiscal year 2001 and that the authorized amounts will be appropriated for each year.

Spending Subject to Appropriation

Title II - Expansion of Charitable Choice. H.R. 7 would establish certain guidelines for religious organizations or their affiliates to receive federal funds for the provision of social services. It also would require that any governmental organization that contracts with a religious organization to provide social services guarantee that eligible individuals who object to a specific service provider on religious grounds be directed to a different provider of comparable services. Although in many areas the number of providers would be sufficient to ensure that alternative providers would be available, very small communities might find it difficult to comply with these requirements. Although the requirement to find an alternate provider could increase federal costs in some cases by requiring the federal government to pay a portion of the costs of such alternate providers, CBO has been unable to obtain data to estimate any such costs. However, CBO does not anticipate that any resulting costs to the federal government would be substantial.

Title III - Individual Development Accounts. Title III would reauthorize the Individual Development Accounts (IDA) program, currently authorized at $25 million through 2003 under the Assets for Independence Act (Public Law 106-554). The IDA program provides matching funds to qualified low income individuals who save in order to encourage more savings. All deposits made by individuals and matching organizations in IDAs do not count toward the asset limits for federal means-tested benefits.

The bill would authorize $50 million for 2002 and extend the authorization through 2008. The program is funded at $25 million in 2001. Based on historical spending patterns, CBO estimates implementing this title would cost $119 million over the 2002-2006 period.

The bill also would increase the net worth test for an eligible household from a maximum of $10,000 to $20,000, and replace the $4,000 lifetime grant deposit limit for a household with an individual annual grant limit of $500.

It is possible that expanding the IDA program could allow certain people with assets to participate in means-tested programs who would otherwise be ineligible, but CBO estimates that would have an insignificant effect (less than $500,000 a year) on federal spending. While there are limited data on IDA participants, the available information indicates most participants would not deposit enough into their accounts to disqualify themselves from any federal means-tested program.

Revenues

H.R. 7 would allow taxpayers who do not itemize their deductions to deduct a limited amount of charitable contributions paid in cash. The deduction would phase in over time, and would be allowed in computing alternative minimum taxable income. In 2002 and 2003, a single taxpayer could deduct up to $25 and married taxpayers filing jointly could deduct up to $50, with the allowable deduction increasing to $100 for a single taxpayer or $200 for married taxpayers in 2010 and thereafter. The bill would allow taxpayers to exclude from their gross income otherwise-taxable withdrawals from individual retirement accounts (IRAs) if those withdrawals were made for certain charitable distributions, were made after the IRA owner attained the age 70½, and were made directly by the IRA trustee to certain entities. The bill also would increase the penalty on certain trusts for failure to file a return.

H.R. 7 would increase the percentage limitation on modified taxable income for corporate charitable deductions from 10 percent to 15 percent, and phase in that increase over time. The bill would allow all taxpayers to claim enhanced deductions for donations of food that meets certain quality standards. The bill also would replace two rates of tax based on net investment income for private foundations not exempt from tax with a single rate of tax of one percent. It also would apply a 100-percent excise tax to any unrelated business taxable income of a trust that is required to pay a certain percentage of the value of the trust to a noncharity (charitable remainder trust), make donated scientific property or computer technology and equipment that is assembled by a taxpayer eligible for either of two enhanced charitable deductions in excess of the cost of the property, and allow shareholders of certain corporations to update the basis they hold in stock to a present value amount in order to take into account the shareholders' portion of charitable contributions made by those corporations.

The Joint Committee on Taxation estimates that the revenue loss associated with this legislation would be $4.5 billion over the 2002-2006 period and more than $13 billion over the 2002-2011 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	Not applicable										
Changes in receipts[a]	0	-368	-816	-900	-1,182	-1,193	-1,281	-1,583	-1,705	-1,901	-2,367

a. Estimate was provided by JCT.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The Joint Committee on Taxation (JCT) has reviewed the tax provisions of H.R. 7 and CBO has reviewed the remaining provisions of the bill for intergovernmental mandates.

Mandates

JCT determined that the tax provisions of H.R. 7 (part of title I) contain no intergovernmental mandates as defined in UMRA. CBO has reviewed the remaining provisions of the bill and has determined that section 104 contains an intergovernmental mandate as defined in UMRA because it would preempt inconsistent or more stringent state liability laws that hold businesses civilly liable for injuries or death that result from the use of equipment, facilities, or vehicles donated or lent to nonprofit organizations or for tours of business facilities. This preemption would be an intergovernmental mandate as defined in UMRA, but because the preemption is narrow and state governments could enact legislation to opt out, CBO estimates complying with this mandate would result in no direct costs. Thus, the threshold established in that act ($56 million in 2001, adjusted annually for inflation) would not be exceeded.

Other Impacts

Title II would establish new requirements and prohibitions on how state and local governments receive and use federal funds under numerous federal programs. Such programs include anything related to hunger relief activities, federal housing under the

Community Development Block Grant Program, prevention of domestic violence under the Child Abuse Prevention and Treatment Act, and services for the elderly under the Older Americans Act. Specifically, title II would require state and local governments to consider religious organizations on the same basis as other organizations to provide assistance under programs carried out using federal funds.

The bill also would require that the appropriate government entity notify applicants and recipients about provider options and provide, in a timely manner, an equivalent alternative from a nonreligious provider if a recipient objects to receiving services from a religious provider. In addition, state and local governments that discriminate on the basis of religion in selecting service providers could be sued for injunctive relief. All of those requirements are conditions of federal assistance, and therefore, are not mandates under UMRA. However, those requirements could increase state and local costs to administer numerous federal programs. In particular, some small communities could find it difficult or costly to comply with the alternate provider requirements. CBO does not have sufficient information to estimate the aggregate costs nationwide.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On July 11, 2001, CBO transmitted a cost estimate for H.R. 7, the Community Solutions Act of 2001, as ordered reported by the House Committee on the Judiciary on June 28, 2001. That bill included somewhat different provisions related to tax changes and individual development accounts.

The House Judiciary Committee's version of H.R. 7 would allow taxpayers to deduct charitable contributions up to the amount of the standard deduction. The bill included slightly different provisions relating to tax-free distributions from individual retirement accounts and charitable deductions for contributions on food. In addition, it included a tax credit for financial institutions running individual development account programs, rather than a grant program to encourage such accounts. The Joint Committee on Taxation estimates that the revenue loss associated with those changes would be almost $50 billion over the 2002-2006 period and more than $120 billion over the 2002-2011 period.

While this version of H.R. 7 differs from the version ordered reported by the House Judiciary Committee, CBO's estimate of the costs to state and local governments is the same for both versions.

ESTIMATE PREPARED BY:

Federal Spending: Sheila Dacey, Donna Wong, and Geoff Gerhardt
Federal Revenues: Erin Whitaker
Impact on State, Local, and Tribal Governments: Shelley Finlayson
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis Division